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C O N F I D E N T I A L SECTION 01 OF 03 HONG KONG 000637

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SUBJECT: CODEL MCCAIN ROUNDTABLE WITH SENIOR HONG KONG  
STATESMEN

Classified By: Consul General Joe Donovan for reasons 1.4 (b) and (d).

11. (C) Summary: Former Chief Secretary Anson Chan told CoDel McCain April 5 that Hong Kong's deterioration under "one country, two systems" has more to do with the failure of the current administration to defend Hong Kong's interests than with interference from the Mainland. Executive Councilor and economist Professor Lawrence Lau argued that even democracy will not help Hong Kong if it fails to maintain its international standing, warning that Hong Kong people are becoming more insular. Civic Exchange CEO Christine Loh felt Hong Kong should take advantage of increasingly liberalized Chinese foreign investment rules to attract Mainland investors to Hong Kong, creating a Mainland constituency with a stake in Hong Kong's ongoing success. While Chan and, to a lesser extent, Loh argued the Mainland has dampened progress towards democracy, they did not believe that the Mainland would block democratic development to the point that Hong Kong came to be more like the Mainland. On the environment, all three maintained that the situation had deteriorated and required more attention by the Hong Kong government. On climate change, Loh argued that the Mainland leadership was quite well-informed and focused on the issues, but would look for a policy signal from the United States in Copenhagen. End summary.

12. (C) On April 5, The Consul General invited three Hong Kong "senior statesmen" to offer CoDel McCain (Senators John McCain, Lindsay Graham, and Amy Klobuchar) their perspectives on Hong Kong's present and future status. The group included:

-- Former Chief Secretary and former independent pan-democratic Legislative Councilor Anson Chan Fong An-sang.

-- Executive Councilor, Vice Chancellor of the Chinese University of Hong Kong and noted economist Professor Lawrence Lau Juen-yea.

-- Civic Exchange Chief Executive Officer and former Legislative Councilor Christine Loh Kung-wai.

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Defective Political System  
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13. (C) Asked to offer their views on Hong Kong's current situation, Anson Chan explained that, while people still viewed Hong Kong as a place that works, popular dissatisfaction with the government was growing. She argued Hong Kong's government is failing to uphold the "two systems" side of "one country, two systems." In part, this has to do with the defective nature of Hong Kong's governance system, with an unelected Chief Executive hard pressed to win support in a legislature which has to answer to voters. However, she laid a large part of the blame on the government's poor performance on alleviating the growing rich-poor gap and on progress towards democracy, which has engendered public discontent. Chan also contended that the central government, through the Central Government Liaison Office, was increasingly interfering in Hong Kong's elections and even its day-to-day governance.

14. (C) Christine Loh described "one country, two systems" as a double-edged sword. Yes, it had generally protected Hong Kong's unique way of life, although the pace of democratization had been slower than Hong Kong people wanted. The Hong Kong and Macau Affairs Office (HKMAO) had served as a buffer, she said, keeping Mainland interests from seeping into Hong Kong to the detriment of its autonomy. However, the unintended consequence of HKMAO's monopoly on Hong Kong was that ministers on the Mainland do not consider Hong Kong in their work, meaning Hong Kong interests in major economic questions are not heard during the policy debates.

15. (C) Citing President Hu's recent defense of Hong Kong and Macau against their being listed as "tax havens", Lawrence Lau argued the Mainland does not ignore Hong Kong's

interests. He sees a greater concern in Hong Kong turning inward itself. People are not interested in learning Mandarin, and are giving up their English. In that regard, he contended, democracy will not help if Hong Kong isolates itself. Hong Kong must maintain its internationalization and build its relationship with the Mainland. Without the former, Hong Kong will truly become "just another Chinese city"; without the latter, Hong Kong will be an island disconnected from China.

16. (C) Asked by Senator McCain about roots of public

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discontent, Chan cited sham "public consultations" after which the government does as it chooses, the government's apparent belief that economic integration can only occur at the cost of Hong Kong's unique social system and freedoms, and the government's failure to carve out Hong Kong's niche in the development of China. However, this has not led to a greater call for socialism, as Senator McCain ventured it might. Chan believed that Hong Kong people are generally pragmatic and prefer to rely on their own resources. What they want from the government, she contended, is assistance to the neediest sectors of society, including job training, and also long-term investment in economic prosperity through education and development of competitive sectors.

17. (C) Loh contended the current system leaves people feeling they have little influence collectively. She noted that, as neither a dictatorship (which can order change) or a democracy (which can win a mandate), the government was poorly designed to implement structural change. Lau concurred to an extent, noting that much of the political debate now is a government vs. anti-establishment divide. This makes dealing with thorny issues such as reforming the tax base very difficult.

18. (C) Regarding the Mainland's role in slowing development of democracy, none of the three Hong Kongers believed that the one country would inevitably trump two systems, leaving Hong Kong more like the Mainland and not able to reach its democratic goals. Lau argued that, while more progress was needed, Hong Kong was still freer than it had been before 1997. Chan was much more pessimistic, yet still felt Hong Kong could succeed if the government had the will to do so, and also believed that the Mainland was changing more than the CoDel might realize. Loh argued that the democracy debate had always been part of Hong Kong, and was part of China's story as well. All felt China still regards Hong Kong's unique system as valuable and hoped for its success.

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Economic Role Hong Kong's to Lose  
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19. (C) Chan, Loh and Lau all saw Hong Kong's core advantages in its open flow of information and the rule of law. However, both Chan and Lau argued Hong Kong is losing its chance to remain a vital international economic center. Chan told the CoDel Hong Kong had a long history of participation in international economic fora, whereas now the government either "doesn't turn up" to meetings, or attends but says nothing. Lau noted that the Mainland has 90 double-taxation treaties, while Hong Kong has five. The PRC state aluminum company Chinalco is in the process of acquiring a stake in Australia's Rio Tinto mining company. Hong Kong should be the ideal place to set up a headquarters for the resulting new entity, but Hong Kong lacks a taxation treaty with Australia, so the office will be opened in Singapore. Both Chan and Lau argued the government is moving too slowly to identify and develop industries such as insurance in which Hong Kong's rule of law system offers an advantage over Mainland cities.

110. (C) Regarding the rise of Shanghai, Lau argued that there was more than enough business in China to support several economic centers. Even if Hong Kong served only the Pearl River Delta, that was 400 million people. Loh sees Hong Kong missing an opportunity in the liberalizing rules for foreign investment now emerging on the Mainland. By getting Mainlanders to invest in Hong Kong, Hong Kong can create a constituency on the Mainland committed to Hong Kong's success.

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Environmental Issues  
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111. (C) Christine Loh argued that Hong Kong has done poorly on environmental issues, and that Hong Kong's air quality was now twice as bad as Los Angeles. She cited roadside emissions as most important, more so than Pearl River Delta industry. Lawrence Lau noted that Hong Kong power plants also still burn dirty coal. Anson Chan decried the seven-year debate before the government started retrofitting coal-fired plants with clean coal technology as another failure in governance. Loh blamed the media in part: Since the "old fashioned" media do not give adequate coverage to

environmental issues, the government believes the issue is not o the minds of citizens since they don't see "riots".

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12. (C) Loh was markedly more upbeat about the Mainland, although she admitted they were starting from a different place in development. She believes the Politburo are well-briefed on environmental issues and the impact of climate change on China, particularly the importance of energy efficiency. She told the CoDel China will come to Copenhagen ready to negotiate, but will be looking in the first instance for a policy signal from the United States. Noting China has always cited its low emissions rate per capita, Lau argues Copenhagen needs to look for some universal criteria which will put all economies on the same scale while allowing for their levels of development. Loh countered that such a debate would take so long the result would come "too late." She thinks a series of ad hoc deals, in which less-developed countries are guaranteed energy supplies, can be concluded more quickly.

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Other Issues  
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13. (C) Chan, Lau and Loh all downplayed the CoDel's concerns about China's military buildup, with Chan arguing that all states built up their military capabilities as a deterrent. China's base, she argued, was still very small. None of the three saw the buildup as directed "against" anyone, save perhaps against a unilateral declaration of independence by Taiwan. While they accepted that the new Ma administration was not inclined in that direction, they told the senators that such restraint was never taken for granted under Chen Shui-bian. Asked by Chan whether Congress and the U.S. government remained interested in "one country, two systems", McCain argued they did, but that the economic crisis was causing America to look inward. Graham argued that Taiwan was very successful in lobbying, but that Hong Kong had fewer advocates.

(U) The CoDel did not have the opportunity to clear this message prior to departure.  
DONOVAN